Radian Group Inc. and Subsidiaries
Reconciliation of Consolidated Non-GAAP Financial Measure

Use of Non-GAAP Financial Measure

In addition to the traditional GAAP financial measures, we have presented a non-GAAP financial measure for the consolidated company, “adjusted pretax operating income (loss),” among our key performance indicators to evaluate our fundamental financial performance. This non-GAAP financial measure aligns with the way the Company’s business performance is evaluated by both management and the board of directors. This measure has been established in order to increase transparency for the purposes of evaluating our core operating trends and enabling more meaningful comparisons with our peers. Although on a consolidated basis “adjusted pretax operating income (loss)” is a non-GAAP financial measure, we believe this measure aids in understanding the underlying performance of our operations. Our senior management, including our Chief Executive Officer (the Company’s chief operating decision maker), uses adjusted pretax operating income (loss) as our primary measure to evaluate the fundamental financial performance of the Company’s business segments and to allocate resources to the segments. Management’s use of this measure as its primary measure to evaluate segment performance began with the quarter ended March 31, 2014. Accordingly, for comparison purposes, we also present the applicable measures from the corresponding periods of 2013 on a basis consistent with the current year presentation.

Adjusted pretax operating income (loss) adjusts GAAP pretax income (loss) to remove the effects of net gains (losses) on investments and other financial instruments, acquisition-related expenses, amortization and impairment of intangible assets and net impairment losses recognized in earnings. It also excludes gains and losses related to changes in fair value estimates on insured credit derivatives and instead includes the impact of changes in the present value of insurance claims and recoveries on insured credit derivatives, based on our ongoing insurance loss monitoring.

Although adjusted pretax operating income (loss) excludes certain items that have occurred in the past and are expected to occur in the future, the excluded items represent those that are: (1) not viewed as part of the operating performance of our primary activities; or (2) not expected to result in an economic impact equal to the GAAP measure. These adjustments, along with the reasons for their treatment, are described below.

(1) *Change in fair value of derivative instruments.* Gains and losses related to changes in the fair value of insured credit derivatives are subject to significant fluctuation based on changes in interest rates, credit spreads, credit ratings and other market, asset-class and transaction-specific conditions and factors that may be unrelated or only indirectly related to our obligation to pay future claims. With the exception of the estimated present value of net credit (losses) recoveries incurred discussed in item 2 below, we believe these gains and losses will reverse over time and consequently these changes are not expected to result in economic gains or losses. Therefore, these gains and losses are excluded from our calculation of adjusted pretax operating income (loss).

(2) *Estimated present value of net credit (losses) recoveries incurred.* The change in present value of insurance claims we expect to pay or recover on insured credit derivatives represents the amount of the change in credit derivatives from item 1 above, that we expect to result in an economic loss or recovery based on our ongoing loss monitoring analytics. Therefore, this item is expected to have an economic impact and is included in our calculation of adjusted pretax operating income (loss). Also included in this item is the change in expected economic loss or recovery associated with our consolidated VIEs.

(3) *Net gains (losses) on investments and other financial instruments.* The recognition of realized investment gains or losses can vary significantly across periods as the activity is highly discretionary based on the timing of individual securities sales due to such factors as market opportunities, our tax and capital profile and overall market cycles. Unrealized investment gains and losses arise primarily from changes in the market value of our investments that are classified as trading. These valuation adjustments may not necessarily result in economic gains or losses. We do not view them to be indicative of our fundamental operating activities. Trends in the profitability of our fundamental operating activities can be more clearly identified without the fluctuations of these realized and unrealized gains or losses. Therefore, these items are excluded from our calculation of adjusted pretax operating income (loss).

(4) *Acquisition-related expenses.* Acquisition-related expenses represent the costs incurred to effect an acquisition of a business (i.e., a business combination). Because we pursue acquisitions on a limited and selective basis and not in the ordinary course of our business, we do not view acquisition-related expenses as a consequence of a primary business activity. Therefore, we do not consider these expenses to be part of our operating performance and they are excluded from our calculation of adjusted pretax operating income (loss).

(5) *Amortization and impairment of intangible assets.* Amortization of intangible assets represents the periodic expense required to amortize the cost of intangible assets over their estimated useful lives. Intangible assets with an indefinite useful life are also periodically reviewed for potential impairment and impairment adjustments are made whenever appropriate. These charges are not viewed as part of the operating performance of our primary activities and therefore are excluded from our calculation of adjusted pretax operating income (loss).

(6) *Net impairment losses recognized in earnings.* The recognition of net impairment losses on investments can vary significantly in both size and timing, depending on market credit cycles. We do not view these impairment losses to be indicative of our fundamental operating activities. Therefore, whenever these losses occur, we exclude them from our calculation of adjusted pretax operating income (loss).

Total adjusted pretax operating income (loss) is not a measure of total profitability, and therefore should not be viewed as a substitute for GAAP pretax income (loss) from continuing operations. Our definition of adjusted pretax operating income (loss) may not be comparable to similarly-named measures reported by other companies.

Radian Group Inc. and Subsidiaries
Reconciliation of Consolidated Non-GAAP Financial Measure

Reconciliation of Adjusted Pretax Operating Income (Loss) to Consolidated Pretax Income (Loss) from Continuing Operations

(In thousands)	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013	Year Ended December 31, 2014	Year Ended December 31, 2013
Adjusted pretax operating income (loss):				
Mortgage Insurance (1) (2)	**$ 56,336**	$ (13,294)	**$ 336,936**	$ (67,435)
Mortgage and Real Estate Services (3) (4)	**2,108**	—	**5,446**	—
Total adjusted pretax operating income (loss)	**58,444**	(13,294)	**342,382**	(67,435)
Change in fair value of derivative instruments	**—**	635	**—**	635
Less: Estimated present value of net credit recoveries (losses) incurred	**16**	(29)	**(113)**	21
Change in fair value of derivative instruments expected to reverse over time	**(16)**	664	**113**	614
Net gains (losses) on investments	**18,658**	(2,631)	**83,869**	(98,945)
Net losses on other financial instruments	**(675)**	(2,209)	**(3,880)**	(7,580)
Acquisition-related expenses	**(380)**	—	**(6,680)**	—
Amortization and impairment of intangible assets	**(5,354)**	—	**(8,648)**	—
Consolidated pretax income (loss) from continuing operations	**$ 70,677**	$ (17,470)	**$ 407,156**	$ (173,346)

(1) Includes amounts that have been reallocated to the Mortgage Insurance segment that were previously allocated to the Financial Guaranty segment, but were not reclassified to discontinued operations.
(2) Includes intersegment expenses of $0.8 million for both the three months and year ended December 31, 2014.
(3) Includes the acquisition of Clayton Holdings, effective June 30, 2014.
(4) Includes intersegment revenues of $0.8 million for both the three months and year ended December 31, 2014.

On a consolidated basis, “adjusted pretax operating income (loss)” is a measure not determined in accordance with GAAP. Total adjusted pretax operating income (loss) is not a measure of total profitability, and therefore should not be viewed as a substitute for GAAP pretax income (loss) from continuing operations. Our definition of adjusted pretax operating income (loss) may not be comparable to similarly-named measures reported by other companies.